5:al Dalli S-5 (no date)1954 MHI Iraq MHI

PROBLEMS OF INDUSTRIAL ENTERPRISE IN IRAQ

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433 Modern industry in Iraq, as in many other underdeveloped countries, has made significant progress in recent years and especially since the end of World War II. It is not within the scope of this article to discuss the causes of this movement in their relation to over-all industrial development and industrialisation in Iraq. The discussion in this paper will, on the whole, be restricted to the problems of industrial enterprise in the private sector of the economy. Consequently, Government industrial plans, as well as the oil industry have not been discussed. Likewise, the paper does not deal with the wider regional aspects of modern industry. As far as Iraq is concerned, the main causes for the progress of industry are to be found in the abundance of natural wealth, especially in the form of oil, the relative plentifulness of cheap labour in urban centers, the hardships suffered by the population during the war owing to the shortage of essential industrial products, the exceptional profits made during the war by proprietors of such modern industries as then existed (e.g. woollen textiles, cigarettes, soap, etc.), the accumulation of large sums of liquid capital in relatively few hands as a result of war and post-war inflation, and finally, the positively helpful attitude of Government towards industrial development.
654 The Iraqi Government has always tried to encourage industry, and
652 has granted it various exemptions from taxation under the Law for the Encouragement of Industry, passed in 1929, and its amendments. In 1946 - 47, however, it took a more effective step in the creation of the Industrial Bank, with a capital of I.D. 500,000 wholly contributed by the Government. The Bank's function is to grant loans for the establishment of new industries and the expansion and improvement of existing industries, to participate in joint-stock companies formed for industrial purposes, to start new industrial enterprises on its own account if need be, and to offer various services connected with the import of machinery, materials, and the export

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654 of products.[1] Financial assistance thus provided by the Government,
652 together with the new Law for the Encouragement of Industry issued in 1950, proved of great potency in the development of industry. The capital of the Industrial Bank was increased in 1952, to I.D. 3,000,000 of which I.D. 1,200,000 have already been paid up.
433 These and other measures, such as increases in custom duties
456 and the restriction or prohibition of certain industrial imports, have produced marked progress in the establishment of new industries and the re-equipment and expansion of old ones, especially since the end of World War II.[2] This can be seen from the following table:

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Development of Large-Scale Industry in Iraq 1948 - 1952

Year (1st April - 31st March)	Capital Invested I.D. 1000	Value of Annual Output I.D. 1000	Number of Employees	Wages paid annually I.D. 1000
(Seven large Industries)				
1948 - 49	3,183	1,403	1649	
1949 - 50	3,194	1,555	2626	333
1950 - 51	4,206	2,631	3443	406
1951 - 52	4,415	3,600	3837	486
(Ten large Industries)[3]				
1951 - 52	4,835	4,424	4533	599

1 Industrial Bank, Compilation of Laws, Regulations, etc. Government Press, Baghdad 1951.

2 For pre-World War II industrial development in Iraq see: *A Handbook of Mesopotamia*, H.M.S.O., 1917. *A Report on the Progress of Iraq*, by H.M. Government to the League of Nations. H.M.S.O.,1931. *The Iraq Directory*, Baghdad, 1935 (English Edition). *The Economic Organisation of Iraq* (In Arabic), Editor Said B. Himadeh, Beirut, 1937.

3 See the *Annual Report of the Department of Industry 1951-52*, Ministry of National Economy, Baghdad. (In Arabic)
The Report of the National Bank of Iraq, 1949-50, p. 46 (in Arabic) states that national production of cement, beer, vegetable oil, soap, leather.. etc., has been substituted for similar imports with the result that value of imports fell from I.D. 2,984,000 in 1948 to I.D. 1,298,000 in 1950, and the deficit in the balance of trade was reduced by I.D. 1,686,000 due to this reason alone during the same period.

The ten industries referred to in the table are: cotton spinning and weaving (one establishment), cement (one establishment), wool spinning (two establishments), modern tanning (five establishments), beer (one establishment), alcohol (three establishments), vegetable oil (one establishment), modern soap making (one establishment), artificial and natural silk weaving (six establishments), jute spinning and weaving (one establishment still under construction). The total is 22 establishments all of which enjoy government assistance under the Law for the Encouragement of Industry, and practically all have received financial aid in the form of loans or capital participation from the Industrial Bank. None of them employs less than 20 workers, and the majority employ over a hundred workers. All use power-driven machinery. It is interesting to notice that most of these industries are owned by joint-stock companies and that they have distributed profits during the last three years ranging from 9 per cent to 25 per cent.

Obviously the table does not cover the whole field of industrial development in Iraq. It has been constructed on the basis of a selected sample to show the rapid progress made in recent years. The unusual increase in ouput compared with the rate of capital investment as shown in the table is to be explained by the fact that most plants were still under construction or half-completed in the early years. A complete survey of the industrial sector in the economy of Iraq is still to come. The Central Bureau of Statistics, Ministry of National Economy, is expected soon to embark on this task. Such a survey will have to cover, in addition to those industries included in the above table, the following:

(a) Other modern industries in the private sector which represent a substantial portion of the whole, such as flour milling, workshops and agricultural machine repair shops, printing, cotton ginning, cigarette manufacture, the building materials industry, shoe-making, etc.

(b) The great oil industry owned and operated by powerful foreign concerns holding concessions from the Government. The oil companies produced nearly 8 million tons of crude oil and 400,000 tons of refined products in 1951, and employ over 12,000 workers. Their production is expected to rise to 20 million tons of crude oil in 1955-56.

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[655] (c) Industrial enterprises being carried out directly by various government departments and agencies such as the Iraqi State Railways, the Port of Basrah, the Ministry of Defence, the municipalities, and the recently set up State Oil Refinery Administration which has already undertaken the construction near Baghdad of an oil refinery with an annual capacity of 1,000,000 tons of refined products, at an expected cost of about I.D. 7,000,000.

(d) Various handicrafts and semi-mechanised industries such as the date-packing industry.[1]

433 It need hardly be said that, although recent industrial development has been marked, it is still quite limited in relation to the economy as a whole and in comparison with industrial development in neighbouring areas. In Lebanon for instance, the industrial sector has been found to contribute approximately LL. 135 million, or 17 per cent of the total national income estimated at
434 LL. 830 million.[2] In our estimation, the industrial sector in Iraq contributes no more than 10 per cent of the total national income estimated at I.D. 150 million.[3]

000 The problems arising from, and the difficulties standing in the way of, industrialisation in Iraq, will now be discussed.

Industrialisation in general means the introduction of modern industry into an area which has been up to that time dependent for its livelihood on agriculture, trade and craftsmanship. Such an area would have had no experience of mechanised industrial processes, the organisation of modern factories, the division of labour inside such factories, nor would it have any clear idea of the material and human resources that such organisations would demand. Assuming that industrialisation of such a "new" or underdeveloped area is a desirable thing, two sets of problems seem likely to emerge. The first set of problems is connected with the ways and means of developing industry with reasonable speed. The second set of problems relates to the psychological, social and political effects that modern industry brings about.

1 For a brief but fairly comprehensive survey of industrial output and possibilities in Iraq see: *The Economic Development of Iraq*. Report of a mission organised by the International Bank for Reconstruction and Development. The Johns Hopkins Press, 1952. p. 148-50, also Annex D.p. 277 and following.

2 *National Income of Lebanon, Monograph No. 3* by Albert Y. Badre, Ph. D., and Asad Y. Nasr, M.A., Beirut, Lebanon, May 1953. Especially p. 24.

3 The ratio for more advanced countries is between 30 and 40 per cent.

Scal Dalli S-5 (no date)1954 MHI Iraq MHI

In this paper we shall deal mainly with the first set of problems; that is, the problems that concern the establishment of an efficient and expanding industry in Iraq; we shall only touch casually upon the social and political problems arising therefrom. This limitation is necessary to simplify treatment of the subject and it in no way implies an underrating of the social effects of industrialisation. Further, I have limited this article to a consideration of the problems of only one out of three types of industry. These are:

(a) Industries wholly or partially owned and managed by private individuals.

(b) Publicly owned and managed industries, such as the Iraqi State Railway workshops, armament factories and workshops, and the various light, power and watersupply companies owned and run by local authorities.

(c) Industries owned and managed by foreign enterprise holding a concession or monopoly from the State. Outstanding examples of this type of activity are the oil companies and the Baghdad Light and Power Co. Ltd.

Our treatment will center round the first type of industrial activity, that is private competitive industry, but many of the observations made upon this type are likely to throw light on the problems of other types of industry.

(1) Financial and Entrepreneurial Problems: It is often said that the main obstacle to industrialisation of under-developed areas is the lack of financial resources and the scarcity of local capital. This is only partially true. Many under-developed areas own a great deal of liquid wealth held in the form of cash deposits, or gold and silver hoards.[1] The difficulty is to induce the *investment* of this wealth in *industry*. This difficulty can only be solved by first making industrial investment possible, and then more attractive than other avenues for investment. Unless the banking system and the money market are so organized as to make it relatively safe and remunerative, as well as possible, for capital to be invested in

[1] It has been estimated for instance by the Clapp Mission in 1948 (The United Nations Economic Survey Mission for the Middle East - *Final Report*, Parts I and II, Lake Success, N.Y., 1949) that hoarded capital in Syria alone amounts to some $ 150,000,000. No estimates are available for Iraq.

000 industrial shares or bonds, local capital will continue to be held
455 in hoards, or invested in trade, agriculture and real estate. Specu-
lation in land values, especially urban sites, has come to play
a great part in the economy of Iraq, and incidently absorbs a great
000 deal of capital. The problem lies then not in the deficiency of ca-
pital resources, but in the utilization of these resources and above
all in the creation of a suitable environment to induce private en-
terprise and capital into the industrial field. In the writer's view
the creation of such an environment is the core of the industriali-
sation problem in under-developed areas. As things are, private
enterprise is primarily absorbed in trade, agriculture and specu-
lation — especially in real estate — where easy money can be made,
and the whole economy remains stagnant. Once this problem is
tackled both local and foreign capital will flow in. The State, that
is the highest authority in a society, is called upon to take the ini-
tiative. Its action must include financial, technical, educational
and administrative measures.

654 In Iraq the State has made attempts to deal with all these as-
433 pects. In the fiscal field it has afforded protection for industry in
[439] the form of high tariff duties on most industrial products and in
the exemption of power-driven machinery from such duties. It
has prohibited or restricted the import of articles the like of which
are being manufactured in Iraq, such as cement, cotton yarn,
vegetable oil, soap, tanned leather, beer. Industrial schemes are
given priority in the granting of import licences and the allocation
of scarce currencies for purchases from abroad.

The new Law for the Encouragement of Industry passed in 1950 consolidated early legislation and made new concessions. Under this Law Iraq-owned industrial enterprises, that is enterprises in which 55 per cent of capital at least is held by Iraqi nationals, are granted exemptions from income and surtaxes for four years; exemptions from import duties (not included in the tariff exemptions) on machinery, materials, equipment, spare parts and containers; exemptions from property tax for 10 years; and use of Government land free of rent up to 25,000 square meters. Industries enjoy these concessions as long as they use raw materials available in Iraq or produce goods imported in cosiderable quantities. In any case they should use chiefly power-driven machinery in their works. These measures without doubt played a significant part in

5:al Dalli S-5 (no date)1954 MHI Iraq MHI

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the development of industry sketched above.[1] Industries which existed then or have come into existence since have benefited considerably from these concessions. But private enterprise remained shy of industrial activity until the establishment of the Industrial Bank in 1946-47. Through this Bank, the State showed itself not only willing to forgo some revenue in the interests of industry, but to provide cash, and to share in the risks of industry. As mentioned above, the Industrial Bank could not only give loans (against real or personal security), but also participate in the capital of joint stock companies. Its greatest value in my view lies in the fact that it can become a founder or promoter of industries and thus lead the industrial community and the investing public into new fields. However, the Bank was handicapped in the early stages, by the inadequacy of the financial resources at its disposal and the absence of economic and technical studies by which the feasibility of proposed industrial schemes might be judged. Moreover, the Bank lacked, and to some extent still lacks, a qualified technical staff. It has often to rely on the judgement of the Board of Directors or the advice of specialized Government departments such as the Directorate General of Industry and the Directorate General of Agriculture, which are not always fully equipped for the task. The Bank has continually asked for scientific surveys to be made of the mineral, agricultural and animal resources of the country. It has also called for an integrated economic plan covering industry, agriculture and other economic activities, in which the Bank, like other institutions, will play its particular role.[2] There has been strong resistance on the part of the Board of Directors to the allocation of money for technical staff or technical studies by experts, and often when money was allocated, it could not be spent because the Board disagreed on the qualifications of such experts (foreign or national) or the need for inviting them to study particular problems. However, as years passed and the financial position of the Bank improved, a section for the study of industrial schemes was formed and members of it were charged with the study of certain problems at home or abroad. A number of ad hoc committees of specialists available in Iraq were set up to study and report on proposed industrial schemes. Contact was estab-

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[1] No provision was made, however, for direct subsidies to industry, and no legal preference in government contracts was given to home industry.

[2] See First Annual Report, Industrial Bank 1946-47/1947-48, Baghdad. (Arabic)

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654 lished with various Government departments, and data were collected, classified and sometimes published for the guidance of would-be entrepreneurs. A number of foreign experts were invited to study either particular schemes (such as paper, sugar, artificial silk fibre, the exploitation of salt, etc.) or to concern themselves with industrial development in general, and make recommendations for improvements in existing industries or for the establish-
652 ment of new industries. In addition to the absence of a general investment policy and planning, and the lack of economic and technical data to guide the activities of the Bank, there was, in the years 1947-50 the handicap of inadequate financial resources. When the Bank opened for business in 1946-47 its nominal capital, in accordance with a decision taken early in 1940, was fixed at I. D. 500,000. This figure was out of proportion with the changed level of prices and incomes, and the expansion of industry which had taken place meanwhile. Furthermore as the capital of the Bank was provided by the Treasury as a loan, it was up to the Treasury to decide what amounts to pay and when to pay them, and its decisions often did not coincide with the Bank's requirements either for funds or for making forward plans.

This situation, however, has completely changed as a result of increased Government revenue from oil in accordance with the Oil Agreement of 1951. The capital of the Bank was raised to I.D. 1,000,000 in 1951 and to I.D. 3,000,000 in 1952. Earlier, in 1948, 1949, and 1950, the Bank was forced to borrow from the reserves of certain Government departments, e.g. the Directorate General of Awqaf, Government Staff Guarantee Fund, and from other banks (especially the National Bank of Iraq). This form of borrowing was found to be less costly and more elastic than borrowing from the public. Another important source of capital which has developed in recent years is the annual net profits of the Bank. These have risen from I.D. 4,066 in 1948-49, to I.D. 7,745 in 1949-50, to I.D. 60,591 in 1950-51, and to I.D. 99,463 in 1951-52. The average rate of loans granted to industry in the last five years has been about I.D. 150,000 annually,[1] with an average loan period of three to four years. Hence a sum of I.D. 40,000 to I.D. 50,000 is repaid annually to the Bank. The paid-up capital of the Bank stood at I.D. 1,200,000

[1] The rate of interest was reduced from 7 per cent per annum to 5 per cent by decision of the Ministry of Finance in 1951.

Scal Delli S-5 (no date)1954 MHI Iraq MHI

in 1952, but it can safely count on an annual payment by the Treasury on capital account of no less than I.D. 200,000. The Bank therefore can be said to be now in a sufficiently liquid position to meet any legitimate demands made upon it.

The International Bank Mission[1] has recommended that "the Bank's capital should be used primarily as a revolving fund. The Bank should generally dispose of its industrial shares whenever an enterprise becomes profitable and, therefore, capable of attracting more private capital." This view is no doubt inspired by the shortage of capital from which the Industrial Bank, as well as other financial institutions, had suffered before the Oil Agreement of 1951. It is clear that the Bank must not, however, be hasty in disposing of shares if it is to perform its important function of encouraging enterprises and capital investment in industry. This can be seen more clearly from the following considerations. First, most of the industrial concerns in which the Bank participates are still under construction (a process which requires two to four years in Iraq), and the few which have gone into production and distributed profits have only done so in the last three or four years. Any large sell-out by the Bank, which holds between 25 and 40 per cent of their shares, is likely to shake confidence in these concerns and create unforseen difficulties for them. Secondly, there is no organised stock exchange in Iraq and the market for shares is so limited that any large sale of shares may lead to a fall in prices which would hit small investors and benefit speculators, while it might harm the credit of the Bank. Thirdly, the stake which the Government now has in the capital of so many industrial concerns helps to reassure private enterprise that it will not retreat from the generous policy it has so far adopted towards industry. Another important consideration in this respect is that Government participation in industry through the Bank gives it a useful instrument, if it wishes to make use of it, for the supervision and control of industry.[2] It seems obvious therefore that the Bank cannot easily use its capital as a revolving fund.

(2) The Supply of Raw Materials and Power: Iraq is potentially

[1] See the International Bank of Reconstruction and Development. *The Economic Development of Iraq*, Report by a Mission of the Bank. Washington 1952. Annex D, p. 285.

[2] During the past five years, the Bank has made, only one sale, 3,000 shares out of 24,000 shares it then held in the Iraq Cement Co., in 1951, by public auction.

5:al Dalli S-5 (no date)1954 MHI Iraq MHI

135 (2) The Supply of RAW MATERIALS AND POWER: Iraq is potentially
233 rich in many kinds of raw materials. In the first place it has abun-
241 dant supplies of oil and gas which provide a cheap source of both
433 raw material and fuel. Secondly, it has pastoral and agricultural products such as wool, camel hair, hides and skins, meat, fish, milk, animal fat. Thirdly, it has fertile land which, with the extension of irrigation, can be a rich source of such raw materials as sugar beets, sugar cane, soybeans and jute, in addition to products already available such as tobacco, cotton, sesame, linseed, and practically all types of grain, fruits and vegetables. Finally, recent geological surveys have located outcrops of iron, copper, zinc and chrome ores. There are deposits of sulphurs, apparently of commercial value, in many parts of Iraq, and of salt, especially near Basrah. Yet each of these resources presents a different problem; none is easily exploitable (except oil); quantities available for industry are limited and the quality frequently poor. Agriculture has been kept at a low level of output because of the lack of irrigation schemes in most parts of the country; the difficulties caused by the present land tenure system and the agricultural techniques connected with the tribal system, which covers over 80 per cent of the cultivated area; the absence of an effective agricultural extension service and lack of modern storing facilities; these and other factors have held back both quantity and quality of agricultural and animal products. There was a noticeable extension in the cultivation of cotton in recent years, but the severe failure of the crop in 1951, owing to a pest attack, has been a great set-back. Difficulties in the supply of raw materials have held up many an industrial enterprise. The scheme for a sugar factory which has been under discussion since 1947 has had to be postponed from one year to another owing to the uncertainties connected with the
[231] cultivation of both sugar beet and sugar cane. The progress of the leather tanning industry, one of the oldest industries in Iraq, has been retarded due to the existing conditions in which hides and skins have been prepared and preserved, and great losses to this particularly native industry have resulted. The woollen textile
[288] mills have had to import certain qualities of Australian wool to mix with Iraqi wool which is of a coarse variety.

135 So far as mineral resources are concerned the surveys that have been made are insufficient.[1] Further exploration work is

[1] As of writing, in July 1953.

needed to prove the extent and quality of the ores located. This work has gone till now rather tardily, owing to the inadequate funds at the disposal of the Directorate General on Minerals. There also seems to be no clear policy as to how this wealth should be exploited: whether by the State directly or by concession to national or foreign enterprise.

Another factor delaying work in this field is the difficulty of transport to and from the sites of the ore deposits which are remotely situated in desert and mountain.

Oil and gas are indeed plentiful in Iraq, and the exploitation of oil resources has indirectly helped to finance the industrial development so far achieved. But the cost of oil fuel and other oil products for local consumption is not much lower than in other countries because of the high rate of taxes on consumption. This and the limited range of oil products so far made in Iraq by the Alwand refinery, owned by the Anglo-Iranian Oil Co., have led to the import of a number of oil products from abroad. But the situation should change when the State-owned refinery, now under construction, goes into production.

Another problem connected with the supply of fuel is the lack of electric power. Power generation in Iraq is inefficiently organised and power rates, except in Basrah and Baghdad in recent years, are among the highest in the world. This has compelled most industries to generate their own power which has added a great deal to production cost. The recent reduction of power rates and the availability of electricity in Baghdad has been one of the major reasons for the concentration of industry in that city.

(3) **Concentration of Industry**: Industry in Iraq is heavily concentrated in the city of Baghdad which has a population of 550,000 inhabitants, in other words a little more than ten percent of the country's population. Excluding oil and one or two small textile, tanning, and grain-milling industries, all modern industry has been established in or near Baghdad, thus adding to the population and housing problems of the capital. There are many reasons for this concentration of industry. All routes converge on Baghdad; it has the largest population and, as the seat of Government, it offers easy access to the central authority. As an old trading centre Baghdad has a well-organised market, large financial resources, and managerial and office staffs. Some of the factors that have made Baghdad

438 more attractive for industry than other areas can be corrected by
[365] proper action. First and foremost is the relative cheapness of power and fuel in Baghdad. The cost of the electric power unit in most cities is double that of Baghdad and rarely is a municipality-owned plant able to supply sufficient power to industry. The cost of oil fuel is at least ten percent higher outside Baghdad. The correction of these factors, together with a more equal distribution of educational, housing, transport and social welfare facilities, could greatly relieve the situation. The Law for the Encouragement of Industry could also be amended so as to give additional concessions for industries established in other parts of the country. The cost of labour and land is already becoming burdensome for industry in Baghdad. This, in addition to the social evil of overcrowdedness, calls for immediate consideration.

434 (4) Limitation of Markets: A newly industrialised country can hardly hope to find foreign markets for its finished products. It has to depend on its home market. The market in Iraq, with its small population (about 5 million inhabitants), of low purchasing power (annual income per head is estimated at between £ 20 and £ 30 or $85), affords very limited scope for large-scale industry. Many of the industries studied at one time by the Industrial Bank, such as the making of artificial silk fibres, the manufacture of paper and cardboard from straw, and the printing of cotton piece-goods, had to be abandoned because the smallest economic unit of these plants is much beyond the capacity of the Iraqi market to support. This situation will no doubt improve as the whole economy of the coun-
439 try expands. But it should be possible to deal with this situation
649 more effectively by joint action on the part of the Arab States, along lines already discussed at high political level. These discussions have had the object of reducing or abolishing inter-state tariff barriers so as to make the whole area one market. Such an action is indeed vital to the progress and prosperity of these countries and their peoples. It should be remembered that before World War I, these countries formed one economic and political unit under the Ottoman Empire.

464 (5) Labour, Technical Staff and Management Problems: The supply of ordinary labour, owing to the high rate of population increase (estimated to be one and a half per cent per annum) and emigration from country to town, is quite sufficient and will remain so

for some time. Women have been employed so far only in exceptional cases. A new problem has been recently experienced in the high turnover of ordinary labour. Owing to the development of the oil industry in Kuweit and other Persian Gulf areas, and the high wages being paid there, many workers in Baghdad, and more still in the depressed farming areas, have been emigrating there. The turnover in the cotton textile industry of Iraq is estimated at 20 per cent of employed labour. 464

The main difficulty however lies in the shortage of skilled and semi-skilled labour. The vast amount of illiteracy among the population, and the failure to make elementary education compulsory has made it difficult to apply any system of apprenticeship successfully. Technical education provided by the State has so far been on a very limited scale - indeed, there are only three technical secondary schools in the whole of Iraq. Therefore a new industry has often first to train its own labourers and technicians, and this of course adds to costs. In the meanwhile, most industries are dependent on foreign technicians, experts, constructors, heads of sections, and foremen. The employment of foreign technicians no doubt is inevitable in the early stages of development, but it has its own drawbacks and burdens. Foreign skill demands higher rewards abroad than it would accept at home, the standard of skill obtained is often not the highest, service is often interrupted either by ordinary leaves, or illness or inability to fit in with local conditions. [212 871] [874]

The lack of qualified labour also applies to the fields of administration, accounts, and management. Efficient clerks, typists, store-keepers, accountants and secretaries are in great demand and very few are available in Iraq. The inadequacy of State commercial education is no less than that of technical education. The scarcity of able management is a serious obstacle to the progress of industry. Those few who have entered the field of industry are mostly of the type of proprietor-manager (even in joint-stock companies managers are usually fairly large share-holders); while the members of boards of directors of industrial companies, (about twenty to twenty-five men) mostly have their own business or profession to attend to. No wonder they show reluctance to go into new enterprises. For one reason or another salaried managers have not made their way into industry, except in very rare cases. On the other hand foreign management, especially on the [658 874] 464 472 473

464 production side, is quite common. Often foreign managers are
472 employed as experts on the basis of a monthly or annual salary,
473 sometimes with a commission in the form of a percentage of net profits. In one case at least production management is given to an independent foreign firm of engineers against a fixed annual payment. This so-called "managing agency system" has been recently introduced in Iraq and has not given rise to any complaints yet. The "system" however has resulted in many abuses in India where it is widely used, and it is now under investigation in that country.[1]

648 6. **Foreign Capital and Participation**: Except where foreign enter-
457 prise has obtained a concession for the development of important
471 resources such as oil, or the supply of light and power as in the Baghdad area, there is very little foreign capital invested in industry as such. Foreign capital for reasons beyond the scope of our discussion has been invested in Iraq mainly in trade and commercial banking (short-term lending). It may be to the benefit of Iraq to induce foreign capital, and perhaps management, to participate in industry. One of the best ways to get the advantage of foreign technical skill and experience, and to bridge the gulf between the existing state of technique in Iraq and that attained by highly organised industry abroad, is to encourage foreign firms to establish branch factories in Iraq. Such branches would have their own capital and management in which Iraqi nationals and foreigners could join together on an agreed basis. It is possible that the limitation of market and geographical position may discourage foreign firms from taking this course. Some of them would require special concessions to induce them to come to Iraq. Many of them are perhaps ignorant of the possibilities that exist. And many others may require some guarantees as to: (a) the remittance of profits and repatriation of capital, (b) equal treatment with Iraqi capital and industry, (c) in case of nationalisation, fair and equitable compensation. In all these respects Iraqi practice in the past has been quite generous, but there is no legislation which clearly defines government policy toward foreign enterprise. The Law for the Encouragement of Industry (1950) stipu-
648 lates that 55 per cent of the capital should be owned by Iraqi
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[1] *The First Five Year Plan, Draft Plan.* Government of India, Planning Commission, July 1951, p. 161.

nationals in order that industry may qualify for the concessions granted by that law. This may appear as a discrimination against foreign capital and some foreign industrialists have raised this point. But considering the great concessions granted by the Law, including the appropriation of state land, and the smallness of the majority reserved for nationals, the "discrimination" is nominal. Past experience of foreign capital investment in the Middle East does not allow the removal of such safeguards. However, the writer believes that proper legislation on these three points mentioned above would give foreign industrialists sufficient assurance; and, given the proper information and contacts, many firms may be induced to establish branches in Iraq to the benefit of all concerned.[1]

7. Other problems: There are other less important industrial problems which should be mentioned even though limitations of space prevent full discussion of them.

(a) It should be realized that Iraqi industry labours under a heavy burden of over-capitalization which adds to its costs. There is a tendency to have completely integrated plants; most industries have to maintain a power generating plant either to provide electricity, or as a spare in case of failure in the city supply. Practically all industries have their own workshops. There is a strong desire on the part of all industry owners to be self-sufficient with regard to supply of materials, chemicals and spare parts. Many industries have been induced to purchase more land than they actually need in order to guard against future needs and also to profit from the expected rise in land values. This has led to an insufficient utilization of machinery and to a great amount of working capital, per unit of production, locked up. These facts are reflected in the balance sheets of many industries in the form of Loans from Banks (commercial banks) which in some cases reach 50 per cent of nominal capital and thus increase the fixed charges which industry has to meet. The reason for this desire on the part of industrials to be more or less completely self-sufficient lies in the fact that, owing to the country's industrial immaturity, it is often impossible to rely on efficient service from outside plants when required. The need to keep great stores of

[1] In accordance with the economic boycott enforced by Arab States, firms having business relations with Israel are excluded.

433 materials and spare parts is due to many factors. First is past
471 experience of the difficulty of obtaining such materials, due either to Iraq's distance from international markets, or to the shortages of world supply, or to the arbitrary attitude of suppliers abroad. Secondly, the fear of interruption of supplies owing to international emergencies and restrictions in the countries of origin. Thirdly, the influence of directors or big share-holders who own agencies for such materials or spare parts.

433 (b) There is great scope in Iraqi industry for improvement in the layout of machinery, flow of material, lighting, noise abatement, and temperature control.

466 (c) The problems of labour recruitment and organisation, systems of wage payment, housing and workers' welfare in general, fall outside the scope of this paper. It is sufficient to say that present labour legislation provides for weekly and annual holidays, for compensations in cases of injury or total loss of life, and prohibits the employment of children under twelve years. Industry is subject to inspection by officials of the Ministry of Social Affairs for the purpose of enforcing the labour laws. The formation of trade unions is permitted under the law, but so far labour organisations have played very small part in industry.

433 (8) State Assistance and Control: The main characteristics of in-
654 dustry in Iraq should by now be clear. It is of a recent development. It has developed largely under state protection and assistance. It has to operate within a very small market. The fact that industry is still in its infancy makes it hard to predict its future course. The part which government assistance has so far played in its development is of special importance and calls for examination. State assistance has taken various forms; tariff protection, exemptions from various taxes and duties, and financial aid through the Industrial Bank. Except possibly in the last case, government assistance to industry has not been based on any criteria of efficiency, or economic or social objectives. Any firm can obtain the benefits of state encouragement as long as it fulfills two conditions only; that it will use raw materials available in Iraq, or that it will produce goods imported in large quantities. It is necessary, if industry is not to grow lax behind the high walls of protection, to set up standards of efficiency, and to relax protective measures such as the prohibition of competitive imports, as soon as experience is acquired and production costs are stabilized. Benefits under

the Law for the Encouragement of Industry are granted irrespective of the locality in which the Industry is to be established or the type of industry embarked upon. Industries established in crowded, highly developed areas are given the same advantages as those established in remote, less developed districts. The manufacturer of producer's goods is treated equally with the manufacturer of consumers' goods and luxury goods. The criteria upon which an industry's claim to benefits is judged stand in need of drastic revaluation.

The limitation of the market in Iraq not only restricts the possibilities of large-scale development of most industries but it affords opportunities for monopoly control by one or two plants in certain fields. The danger of monopoly and exorbitant prices is already in sight in such industries as cement, beer, cotton and woollen textiles. The encouragement of new enterprise in these fields, or the relaxation of state protection to allow healthy competition, or direct intervention by the state to fix prices in relation to costs, is necessary to restrict monopoly power in the interests of the consumer and to preserve public confidence in industry. It is only on the basis of such confidence that the government can continue to give support and material aid to industry. The Iraqi Government has ample powers for dealing with the abuses of monopoly under the provisions of the Law for the Organisation of Economic Life of 1941.

The government can also extend its control over industry and prevent abuses by proper amendments to the law governing joint-stock companies. There is need to restrict the grant of free-shares or "water" shares to promotors, the creation of founders' shares with special powers of voting or percentage of profits, the interlocking of directorships, and abuses on the part of management in respect of purchases of materials and equipment, and sales of finished products. In particular, managers of joint-stock companies should be prohibited from trading on their own account especially in goods related to firms under their management.

The Industrial Bank has often been urged, as a shareholder in many industries, and with its representative on their boards, to exercise control over their price and sales policies. This suggestion derives from the prestige which the Bank has acquired in relation to industrial development. It has undoubtedly helped to iron out many difficulties, to improve management, and prevent abuses. But it is going too far to suppose that the Bank can actual-

652 ly control the price, sales and purchases policies of such indus-
473 tries. In the first place, though the Bank holds a large proportion of the capital (varying between 20 and 40 per cent) of every industry, it is always in the minority on the Boards of Directors ; moreover it appoints its own representatives and is excluded from taking part in the election of other directors by the articles of association of the companies concerned. This course has been deliberately taken so as to ensure private enterprise against arbitrary action on the part of the government. Secondly, the Bank itself is, in the last analysis, a profit seeking institution and therefore it is not likely to stand in the way of any measures likely to increase profits, unless they are of an obviously oppressive or abusive nature. Thirdly, the main duty of the Bank is to promote industry. Promotion and control are not always compatible.

656 For these reasons the State has to look for other ways, and to
475 use more fully the legal powers which it already possesses, for effective control over industry. The fact that it owns a share in industry through the Industrial Bank puts it in a better position to exercise such control. But to rely mainly on the Industrial Bank for this purpose is to escape responsibility.